



EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

June 27, 2007

EXECUTIVE MEMORANDUM

MEMO NO. 07-01

TO: All Department Heads

SUBJECT: FY 08 Budget Execution Policies and Instructions

The attached Budget Execution Policies and Instructions are provided to guide your implementation of program appropriations for FY 08.

After three years of extraordinary expansion, Hawaii's economy has started to show signs of slowing down. Economic indicators in the first three quarters of FY 2007 reveal this condition through lower visitor counts and hotel occupancy rates as well as in the moderation of construction and real estate activities. Tax revenues have also reflected the moderating pace in the economy with actual general fund tax collections showing a cumulative gain of only 3.3% in the first 11 months of FY 07.

At the most recent meeting on May 21, 2007, the Council on Revenues reduced the estimated general fund tax revenue growth rate for FY 07 from 6% to 4%. While the growth rates for FY 08 and FY 09 were kept the same (6% and 4.1%, respectively), the absolute increases will be smaller due to reduction in the FY 07 base. The overall outcome is a downward adjustment of \$88.1 million in FY 07, \$93.4 million in FY 08, and \$97.3 million in FY 09. Including changes from non-tax revenues, the impact on the General Fund Financial Plan is a total reduction of \$292.2 million by the end of FY 2007-09, as compared with earlier projections.

Against this economic and financial background, we must be prepared to take the necessary steps and pursue appropriate policies to prudently manage public resources and safeguard the State's fiscal integrity. While the moderation in economic growth has been anticipated, we are still passing through the initial stage of the cycle; we need to observe and measure the specific impact on State revenues in the coming months.

Therefore, budget execution policies for FY 08 reflect this condition and the cautious position that we must adopt at this time. On July 1, 2007, departments will receive their respective budget allocations for the first quarter only. Full-year allocations are targeted to

be available by September 15, 2007. This two-step plan is to allow for more definitive information on tax collections and revenue forecast to become available, subsequent to the September update by the Council on Revenues. Please be alerted that budget restrictions may be imposed in September should the current revenue condition continue.

While there are uncertainties in the revenue picture, projections of future State expenditures continue to show significant growth due to collective bargaining (CB) costs and fringe benefit obligations, including post-employment benefits. In light of these concerns, the need for maintaining fiscal discipline in managing your given resources becomes imperative. Toward this end, every department must exercise prudence and practice sound management principles in how it spends public dollars. Every expenditure must compete for priority in the State's spending plan relative to all other funding requirements of the State. Above all, you must guard against unjustified, unintended, or automatic expansion of your budget base.

Exhibit 1 contains your department's FY 08 1st Quarter allocation of program appropriations and position ceilings from Act 213, SLH 2007.

CB allocation numbers are provided at this time for information purposes only and funds will not be allotted until September 15, 2007.

Attachments A and B contain detailed, specific expenditure policies, guidelines, and procedures for FY 08 budget execution to provide for prudent and efficient implementation of legislative intent.

Questions on the specific policies and instructions should be directed to the Department of Budget and Finance or the appropriate agency referenced. Electronic files of appropriate forms will be provided for your use.

I am confident that responsible fiscal choices will be made in the spirit of this memorandum even where no specific policies are provided. Your hard work and continued dedication to public service are sincerely appreciated.

LINDA LINGLE

Exhibit 1
Attachment A
Attachment B